

**NOTES for Follow-Up Conference on
“Institutional Design for China’s Evolving Market Economy”
Beijing, March 17th, 2007**

**Notes taken by Yu Luo & Xiaolan Zhang
Compiled by Mo Ji**

Joseph Stiglitz:

It’s a great occasion for discussing this project. There are copies of the first volume of my collected works, which would be officially published on Tuesday. (How many volumes will then come out?) This is two volumes they call it one, so I think the answer is supposed to be six together. (Ok and you’re still writing?) Yes, it’s only about 20 percent of the papers. We had the first discussion just a year ago on this project, then we had a meeting in Manchester, then we had a small meeting in Columbia about a month and a half ago. Then we go to have another meeting in Manchester on Jul, 4th or 6th. Mo Ji will tell you the exact date, while I do is to briefly describe where we are and what we are facing is a critical point forward. One of the critical aspects is creating the institutional infrastructure for the market economy, which includes the legal structure, the innovation system, the foundations of the market economy. We still do not cover many issues in property.

So our meeting will focus on these three parts, one is the foundational issues of questions like what is a good legal system, for instance, the adaptability, the ability to learn to trade-off homogeneity cooperate and autonomy, adaptability to the circumstance of china. So particularly we set principles that would be valid or at least helpful thinking about almost any aspect of the economy system. The second one was appointed to a key idea, which is property, including land rights, a whole set of property. I will come back and talk about that in a second. Then the third is the framework in terms of all the major systems that make the society, the innovation system, the financial system, corporate government system, the health care system. Each of the system that makes the economy functions. And then you could break it down further when you talk about the innovation system, you talk about property right, but also public revision, or how should government support the prices versus input support, the variety ways of providing support. The same thing about social insurance programs, the health care system, the retirement program, the whole set of detail.

What is the reason why in the west they are interested in this kind of project? It is that they get better view by thinking through the issues from the perspectives of real world example. They don’t think just abstractly, they thinking about the basic issues. If you get a right, or more right, you got a great deal of difference for lots of people. So they give you an example, there are two views in law economics. The dominant view of law economics they call it the Chicago view, the Coase view, law is just about getting things efficient. From the Coase theorem, if we get the property right, we can just

leave everything else. There is a more correct view, which is that, to a large extent, institutions involve to solve the gaps in market institutions to ensure the efficiency, so it is a very efficient warrant. So the second view is to say the underlying economics model, the Chicago view, is wrong, because it forgets about the transaction cost, information cost and lots about the things. That it got wrong assumes perfect competition.

So the foundations of the economic model are incorrect. That makes most important issues, like public goods and the fundamental work of private property model. And that historically, a lot of institutions are in maintaining existing qualities. That is to say, those in power design institutions to maintain their power to any qualities. The evolution of the institutions is often attempt on some part of others in the society to redistribute. So that if you look at property right, there are all kinds of restrictions on property rights, and if we talk about property right, we talk about right in responsibilities. We will have discussion on this tomorrow. Sorry, I don't mean to make this speech.

Lawrence Lau:

I want to give an example. In china, institutions are not the solely opponent to efficiency, if you think of the inheritance law in old china. I say, I live in a village, and I have five acres of land. I have three sons. Generally, each one of them will get each piece of the land, which is divided into three parts. If you think about it, that can't not be efficient. Because, you know, what you ought to do is that to somehow we arrange aggregate, but this is a long tradition over thousands of years. So I think it is not true that institutions are not ..., I want to make that corrections.

Joseph Stiglitz:

People are concerned that children being fairly and their worry is that if you give one part to one and another one to another, you would have some part to be better.

Justin Yifu Lin:

Maybe it is also some efficient argument there. Because the impact on each piece of land will be different, and do you have different parts.....

Lawrence Lau:

That's a different perspective of this problem. What I am trying to say is that institutions are driven not solely by efficiency.

Joseph Stiglitz:

I guess what I want to highlight was importantly that this kind of debate ought to be a foreword of discussion of the balance of the efficiency and other concerns. The one ought to be viewing when you talk about right, you meant to be responsibility. I give you an example, for instance, the owner of land has responsibility to make sure that no one else does waste on his land which could spoil the ground water. So even if I

didn't myself have anything to do with the task waste, the fact is there might be some land of responsible, and I have to guard my land that somebody else does not use my land for bad purposes. This is an example for responsibility. Now one important thing is that all this rights and responsibilities have relationship, that is to say one person's right is other's responsibility. Everything has a transaction. I mean somebody else is doing something to you and you are doing something else to others. Therefore, you ought to think about this is systematic. As what I say is rights to responsibilities of everybody to each other, firms to consumers, government to citizens, citizens to government, and unfortunately, much discussion on property right is sort of picking up one piece of that holistic thing. And when you do that, the risk is you have unbalanced set of characterizations of the rights and responsibility.

Lawrence Lau:

The tradition is that when you have n sons, the property will be divided by $n+1$. And the older son of the older son would have the net share. So there is really $n+1$ and that every child's every son gets $n/n+1$, and then the older son of the older son would get one share. But there comes to be some responsibility. The older son of the older son has the responsibility to maintain the family temple.

Lawrence Lau:

Yes, I mean, so once his father got it he would get another share from his father, because he actually is supposed to carry on the line. So sometimes the right to the extra piece of land, the responsibility is to maintain the family temple. So this is very much consistent with the way you describe the rights and responsibility.

Joseph Stiglitz:

I guess my concerning part is that the debate in china and in the west has been to take this context and to focus on property right without taking about either other people's rights or other people's responsibilities. And that it would be very inconsistent with the "harmonious society". An example in the actual property right is ... you have the responsibility of disclosing all this information that is required for somebody replicate it. You know, Microsoft now wants, for property right, for not-disclosure obligation. And the general framework of social construction they are created to achieve certain social objectives of efficiency and equity how well you want to find it. In the case of the disclosure obligation, the point is that the pact is the closure of information, of knowledge. But if this closure is opening up, people can use that knowledge to build at the same time you're fencing in. This is the particular way of balancing. This may not be right, but I guess it is the kind of framework, which is quite useful to beginning our discussion.

So I think this is the overall architecture what we want to go. The nature of the project is that the knowledge is public good. We're going to not only have something discussed ourselves, but write down something. Write it down and make a concrete sharing. And I hope So the critical juncture where we are is we're trying to get

Chinese scholars to work with the western scholars in innovative way. And there are variety of modes that would be most instructive, it is where people actually do enjoying papers... you know about somebody is writing paper about Chinese situation in the western and somebody writing western in china like you. So there are variety degrees of integration of how you do it depending on the coordination problem. If one can coordinate it and get joined the projects, it would be better.

The second question is how we could find out what is its infinite space without really depending on boundaries into a set of imaginable papers of topics matching people from china to the United States. We want two groups of people to work because you are different people, and someone different in some ways. There is variety of ways of cutting any topics as you all know. For instance, take issue as property rights. One could talk about the special issue of land right; it should become a very big issue in the debate in china obviously. So there is number of ways you could divide, uh... a various kinds of property law dealing with old kinds of property rights, you know the urban land, you could divided that way. You could divide it in terms of broad issues of efficiency in property rights, equity in property rights, restriction in property rights, obligations in property rights. And then there are other ways in organizing around the systems like innovation system. So these things are broad view that we don't have a clear view because it is hard to perceive. Then I think there are little bit about matching people in the topics.

Lawrence Lau:

Obviously, I support this project. I think there is one thing useful for us is to collect examples of institutions, just to show that there can be different ways in.... for example, in china... this kind of release. Because in Hong Kong, a great deal of lands is leased, in Hawaii, 90% of lands is leased. There is not these simple. In Europe, everything is private in land even if you work hard, that piece of land is not yours. What I am trying to say is that it is actually useful for someone to do the survey on the different types of arrangements with respect to land parts around the world. And I think that we also need to set a context, because we really can not use it as a benchmark, completely and freely write about the use of land. So I think that is really a good place to start, if we really have a free market in land, we need a better understanding. The other thing is the quick look to zoning; zoning is the most important factor, the factor in the value of land. If I have piece of land, the value of land will change as somebody change the residential of commercial. The value will go up hundreds of times. That is the facts where in every major countries. I think that's also something we ought to think about. It is kind of customer restrictions even in the most capitalistic society. I think I give the benchmark.

Joseph Stiglitz:

So, Larry, how would you think through the reasons, you can't just think about the urban , you can't think of how you will have a tax system that would be use location specific, you would be infinite dimension taxes we don't know how to....

Lawrence Lau:

so I think the more we can collect examples, the better off we are.

Justin Yifu Lin:

That would be service tremendously, because most people here are educated by the text book, and that very easily people jump to the conclusion that the market is perfect. In our real world, as you mentioned in many of your articles the information asymmetry, to overcome that there are a lot of other arrangement necessarily to defend the system functions. But those kinds of example are very limited in china, like among public service. So you give those kinds of examples to drive lessons from that would be very difficult.

Xue Lan:

This is also kind of public issue that someone different from land and from the country property right is the NGO's property. There is an actual story three years ago, there was one patient who needs an very expensive operation. Within that system, they should collect his donation, but before this money could be used, this operation has been cast away. Someone would raise the question that the original donation of the money is for the operation, but now there is no need for that operation, how do you deal with the property. And the answer is that the issues of lots of NGO have these problems now. I think that some of them inherently have these property and some have these problems. This is another type of thing. This is not very important because they are at the state of setting up the foundations and so on. Many NGOs is about to be created and how their properties will be created, but I think this is very different from the land property right.

Joseph Stiglitz:

It is very good about your example that it illustrates that how tycoon property law has to be in the end. But there are many cases, you don't answer the questions. how do you answer the questions? What does 'strong' mean?

Lawrence Lau:

I think there is the same practice in US and Hong Kong, somebody gave them some money then we decided when to finish our job. So there is huge grant to do this project done. We could partition the core to wind down the foundation. And as long as we quick plan, we can better know the purpose of the plan. I think it is much better to live it alone.

Yingyi Qian:

It is because US and Hong Kong have the case law system, but how we do in china is not the case law. You have to look at the rules of laws.

Lawrence Lau:

But this is by rules of equity, that is what you do in those cases if you go back to, why did someone fix the foundation in the first place for the purpose, and now you want to wind down, the other thing is in the US you can see they turn it back to the government, which I think is a waste. But you can certainly do that, you can wind down

Joseph Stiglitz:

I think what is interesting about this is we still try to use the examples as the ways to illustrate principles and breaking out issues, given issue of the Anglo-Saxons coming law, there are much difference between those two in practice.

Yingyi Qian:

When you use cases to show that, it would be much powerful.

Joseph Stiglitz:

Yes, because in fact in the civil law, they have to interpret, what is the most important difference is the nature evolution which is the legal system more than the untypical law. But a lot of people say there is really little difference between them, because of all those makes their sequential of interpretation of language. And the question is how about a way of the regional law have to go to get interpretation.

Lawrence Lau:

That's true. The spring court in china collects example how to interpret this kind of civil law.

Joseph Stiglitz:

Exactly!

Lawrence Lau:

But it is not as winding the foundation as the Anglo-Saxons system...

Joseph Stiglitz:

So the rule question is those degrees of discretion. There are a lot of security areas the American traditional system. You have different districts. The courts in each of the districts can have totally different interpretations of the law. And they go on as if you have two different legal frameworks until you have completed that you have a case that is about somebody who have two restrictions in two different areas. Where you have, and then go to a higher level. It goes to raise the power of level, and the power of level which is also has consistency with each other. But if you never get waste to have a power of level, for a long time you go to have two different even in tax law. It is quite remarkable the tax law could be different in two parts of the United States. Well, the real one is that how we want to perceive and how we find the topics, you might be willing to contribute and we grouped people in the college to write a paper.

Lu Mai:

As Larry said, I also support it, it is a good idea. This is what we want to do, to provide the developing country some alternatives. But who is the reader? The government? But what is the government's priority? Is his natural priority? Let's go up to this research. You just mentioned the small intellectual property, or the general property, or property economic right, to go broad of the social right or the political right. You still mentioned this morning, or we even give up the market government role. I thought the premier said that he wants to get more law passed to fix the policy, to make it clear in his government, so that's a very good side. Not only policy but now they need the law.

Another one is knowledge base. Here I see anyone treat in law. So if you talk about the law issue, it is related with the economic or political or something. The property is a good one, not the property distribute. For example, housing increased dramatically, but government can not tax on that. Because many government officials own the very big apartment of the government, but they can not take tax for that. But this should generate the basic revenue for local government. Not only the housing but for example, the land. Land is the policy 30 years no change. So land distribution in the household level is not as equal as 20 years ago. Someone had big family string, so they have more land and someone was young but had no children. So we have no inheritance system but this is inheritance. They call it inheritance. This depends on how many resources you want to motivate, and how many financial resources you have. From your sides, you have! Who is the reader, and what is the goal of this project.

Fang Xinghai:

I am in a very early stage, really. I sit down and write something. I think there is a good idea to join a paper, for especially someone like me. I am really interested in teaming up with someone who has more time than I have, to work with me and contribute a paper together. The topic I would be interested in writing, I guess there is personal motivation on my side to write something on the land in china. I will tell you a personal story of my family. My grandparents went to revolution they had five mu of private farm land. Then when the collectivization happened, they have five mu collectivized. So they became collectively owned land. Then in 1978-1979, the user right of the land was given back to the farmers. My grandparents they got about one mu of land, because I and my father had moved to the city, so all Hukou have changed to become urban citizens. So my grandparents, two people, they had to share the land. Most collectivized land was redistributed to a lot of people in the village. So they got one mu back..

Joseph Stiglitz:

Just excuse me, what is mu?

Fang Xinghai: one mu is just about one-sixth of an acre. Then my grandmother died,

and my grandfather died last month. And this land would be return to the village and be redistributed later to someone else. So essentially from my family, we lost all these five mu land all together without get anything back. I'm not angry about that, I think we've got much better than past years.

Lawrence Lau:

You can think about the responsibilities.

Fang Xinghai:

Yes, on the other hand, some of the villages leave the village. Farming land can not be privately owned. But you residential land and house land can be privately owned. So these people who have the power have accumulated a large piece of residential land for themselves. He has a house that as big as a mansion. And they were able to exchange these certain things with other people, and then took the land gradually. What I am trying to say is that our public servants can own the usage right of the land but not the land. The land ownership is undergoing a dramatic term in the village level. And this change could become permanent; the government has recognized the change has already happened. So, that is about the issue then. In the city which I live now, the exactly how land ownership change is happening is hard to know. You really have to go down to the city level and do some investigation to find out how people are really done.

Another late example I would like to give is that, it is yesterday I talked to the city's tax bureau about the taxes that financial institutions are subjected to. And this is interesting that whether this wage and salaries the employees are paid are accounted as cost, just the simple thing. It is so complicated that almost every financial institution has the different treatment. The Pudong development bank has a different treatment, the bank of Shanghai would have another different treatment, and the Shanghai agricultural bank has yet another treatment. They are all different from each other. So I just remain you that even in the land ownership, it must be vastly different from location to location, even within the city of shanghai. So if you want to write something new in china, you have to appropriately simplify to get to the level of detail that is enough to present your idea.

Joseph Stiglitz:

Yes, that is something critical. But we're not lawyers; we do not go to writing a law. On the other hand, lawyers often get hung-up in details. They got two hung up in details, the particular works, that they lose the principles. So in that intermediate level, enough concreteness should be written. Recognizing that in the many implications around, you can't analyze all the cases but you are hoped to have the framework to have the tax anomy that will deal with something more important with some principles.

Lawrence Lau:

I quite agree with you. Have some concreteness written, it is helpful for the policy makers on wide do this way here and that way there, I think we really need to look for the concrete cases. In the aspect we should look at the examples. Maybe we should look at the examples in Shenzhen, we know that there are lots of land disuse, that is the way in china. Shenzhen's section is quite interesting. 20 years ago, without agriculture, I don't know how they came upon this idea, every time you take a piece of land away from the farm household, they got that two residential units not one unit. And the idea is that you can't farm any more, but you can give them to your children. That's actual why Shenzhen do well. You won't see people go to the street in Shenzhen, because I think fundamentally, except compensation they can still have a living. Though I lose place of farming, but I can rent one units out or sell it, I can still have a living.

Fang Xinghai:

I think this idea is quite similar to somewhere in Zhejiang.

Lawrence Lau:

Yes, so I think what is really helpful is to collect some of these examples.

Joseph Stiglitz:

I think I can recognize it in two ways. One, the example you're talking about are the example of the stance of the right the governments to exercise and the right you want it to make. It is the base that people take it over. But that's the case where your property rights are restricted. Government has the right to take it away from me. But the government's rights are restricted. Maybe that's to say if it take it away, they have to compensate you. Can you talk about the rules of compensation? Government has the right to take it away, but you have the right to compensate. Then we have to think about the property in form of compensation. And it illustrates that you already have the simple rules of them. That is to say you could imagine a perfect compensation system, but you do not have every one get that. Can you talk about other rules of them, and you can say the way they experienced in different place and the way they work out, and the rules that work well under different circumstance.

Lawrence Lau:

It is not required by law. And you know in china, we always talk about three things: not just the law. Law is 法 (Fa) , and then the reason 理 (Li), and finally human feeling 情 (Qing) . So I mean Chinese local courts traditionally they really look at all three things. There is a law, whether the law is reasonable, the law can come out finally from human feeling. The widow is 50 years old, she is behind the payment, we go to cross that out, but we can just wait for two more years. So that is the Qing. I think that is a long tradition in Chinese law to look at all three things.

Joseph Stiglitz:

I think you can bring to get this kinds of cases going on in china and related with

some historical thing to make us more influential

Cao Heping:

We might have a history dimension. As Larry mentioned, we can back up cross different laws from different economy. There ought to be a historical dimension. It has been published by MIT press. They compare the four economies, china, muslin, Europe and India. And his conclusion is that each of them has shortcuts. And he gives some historical survey among different economies. It did give us some complementary results

Xue Lan:

I think last time the Columbia meeting, you ask me to write something down, and I am trying several times. I think we should really think about before moving on. I think the first one is really the scope of the project. I think what we're troubled at is lots about property right. At the Columbia meeting, it seemed to me that we're troubled in how is it processed. We talk about how different policy in the developed and what people and what institutions play a role. Which seem to me immediately is one important property of the institutional evolution. And also actually in Manchester meeting, we cover a lot of issues beyond the property right, security and some other. So I think we're trying to make some decision, it is possible to say maybe we just focus on property rights, or maybe we have to cover more broad issues but we need to have a supreme boundary. That's one thing that I think we probably have to think about.

The second is the intellectual framework. When we talk about the property right in most of the previous meetings, the scholars, the economists and the people with legal background did have different ideas about how it rises. You can match one Chinese scholar with one western scholar, or scholar matching economists, or economist matching the people with legal background or other background. You allow people to define their framework; the intellectual framework should be defined before matching people. Besides these two points, the really important thing is that where to start.

Lawrence Lau:

Supposing we were able to find out at the beginning, we have to do some to maximize social welfare. If we don't give people property right, they don't have incentives to do anything. But if we give people invalid property right, there are also other problems. So the question is really what kind of design, what kind of rights you give to me, and what kind of restrictions in some sense to maximize social welfare. It seems to me that should be organizing framework, we can treat the country the land rights, we can say how there is arrangement, the social welfare going over time, and how the social investment is maintaining obligation and so on. I think that would be a usual way.

Joseph Stiglitz:

People are willing to think about these issues of human capital at a time. It is not

money, it is the real constraints. Different people think about the world differently and different people focus on different problems. So as I think about this, it seems to me that what we want to do is to find overarching the framework. And then have different individuals decide what paper to write in their framework. You know matching people up in whatever way worse though there is synergy which is taking us to implore. So the overarching framework, like property right and innovation systems are social constructions. The social constructions have variety efficiency and equity consequences. And that they have variety different places taking on different forms. And what Larry thinks about, how will the different frameworks work, both into efficiency and equity social consequences. In talking about the efficiency and equity, there are static or dynamic consequences, debt changing circumstances. So you might say taxonomy consideration you may need to talk about. Empirical scientists were discussing about the political forces and about the adaptability that can't be abstracted from the critical economy in the critical approaches. The political economists can not describe the political process.

Fang Xinghai:

Can anyone talk about what is the political pose theorem?

Joseph Stiglitz:

That is an example. The clear citation to call this is on (who), who said that do not worry about how you assign property rights, do not worry about whether there is a legal framework, assume you assign controlled rights, people who have the controlled rights will have incentives to create a large framework to get efficient. In terms of this circumstance, when you have had a clear property right, what a framework you have to have is the legal framework. He said that what is good point for cooperate governance is a good draft that one does not worry about. Just give controlled rights, and then the political process will generate a clear definition of property right which will lead to efficiency. The reason you can not understand this is nonsense.

Fang xinghai:

The example he would have cited is the Russia's example. Right?

Joseph Stiglitz:

Yes.

Fang xinghai:

Give the right to people. In the process they exchange the rights under a legal system which will lead to efficiency.

Joseph Stiglitz:

Exactly. But it does not lead to a system with good cooperate governance.

Lawrence Lau:

There is a saying in America: the possession of long time is the unchanged law. Joe and I fight for a land, and he has a possession. The probability he will win is high. Is it right, Joe?

Joseph Stiglitz:

Yes. It is just a notion you do not have to worry about the sequence. You do not have to worry about defining the property right, just give controlled rights and then people will control rights, will demand a legal framework to get efficient. Nobody else is on my name of the Coase theorem, but as (who) said, it does not matter how you assign property right, well defined property right will get efficiency. This was once a further one like “do not worry about defining property right, just controlling rights, and they would get well defined property right and cause efficiency as a result.

Lawrence Lau:

I think in China, this thing is even better in some sense. Because I think people worry about the first generation property right. If I have a house and am not sure that somebody has own it. The first generation owners may sell it to somebody else. Then I say there are tremendous issues. If I was the first owner that had sold it for whatever and recover it, after I sold it to Joe, Joe paid the money to me. There is no way that the government can go into Joe's and say “It is not yours, because Larry had sold it for something else.”

Joseph Stiglitz:

I mean Russia can become a critical issue. Because (I) do not have the property. He wants to sell it to (I). The government was worrying to Larry's point, once he sells it to (I), (I) is not going to the property and it was not mine. (I) will say I can take it from somewhere, you can take it away from me. And the government knew that is a huge legal bad in US. We are not allowed to sell the (I). It is an issue of property right that would buy stolen goods in what level you know in America. You buy with a lot of money the title insurance. There is a huge controversy over Indian land, where the fact is that the land is stolen from Indians and somebody sold it, somebody sold it, now that is some core case that is more in Canada than US, Australia as well. They want to determine the stolen property. We would compensate the person, the descendant of people who was stolen.

Justin Yifu Lin:

I'd like to come back to traditional mention on the basic framework of the paper contributed. That might be important. Otherwise, we may not come out with some kind of confusing thing. The purpose of this project is because china is some traditional courses, these is a way to have the effect of direction of the exchange to more developed economy. We observe that in China and other developing countries, they are influenced by only one school of thought in the textbook, such as Chicago School, Washington Consensus. They think things like this: information is perfect, there is no information cost or information asymmetry, there is no much increasing

return and other simplified assumptions. However, these kinds of assumptions are very powerful, but the special in China and other developing countries is that the government has other information, and they think that other developed countries are market economy. And it is easy for them to jump into perfect market. It is the solutions for all the problems in the developing countries.

So I think the Chicago school or Washington Consensus will be satisfied by some people. Our mission is to actually practice these Chicago principles. You need to have property right because any kind of property right arrangement has an effect on incentives. We want to have efficiency. But we also want to have other values important to social welfare. So we also need to look into other things like what you have emphasized much about information asymmetry. We also need to look into the cases of value increase from individual assets or from collect assets of the society, since the land value increases a lot.

Joseph Stiglitz:

Somebody puts the rule why should you get the value of the increase.

Justin Yifu Lin:

Yes. So maybe, in writing the paper, no matter something you write you have to analyze most aspects in coming to say how you need to try a modification to the simple principle available. So then we can achieve a victory you know, social welfare, on statistical sense.

Joseph Stiglitz:

It seems to me with that principle it would be written in almost any paper. For instance, like the property right you've talked about. What is the public good, which is too easy? It is very clear, land rights issue like land use is also very strong. Rural land was the biggest issue. The collected land, who gets the benefits from the aggregate of the usage and how you share. It is a really deep principle which needs to be pressed, not a smoke-over by saying the property right he did contribute, and he gets full benefits of the increasing value.

Lawrence Lau:

I agree with you. But I think in practice, we have to know the roles, powers of people. Most of the time, people being compensated are related to the people who are mooting the rules.

Joseph Stiglitz:

That is an example of a balanced model between incentives aspects and equity aspects. The overall framework it seems to me is one that try to do the introductory chapter and with a kind of over-arching perspective. My own mind is you try to narrow down, just property right esp. intellectual property right. But I am thinking the difficulty in getting people willing to write this critical thing. Anybody would write this

framework. Later on we go to a successful--. For instance, you could even talk about the housing insurance system, what is the social obligation, where is property right network, for some people say just leave it to the private sector. Property right model does not work. We want to answer there questions. One can do almost anything and with this principle. One of the questions the leadership is dual leadership. One is to policy makers. I do not expect policy makers to settle down rigid polices, so the real leadership is to who are governmental advisors, to give government people or policy makers arguments and also analysis. They say OK for simply that time there is a thing we need to worry about. And different people would be worried about things of others. Does it make sense?

Li Ling:

It is a great project. But it is not popular into application. How can we do it? Maybe we can start with compensating one project; maybe we can start at land right or other rights. We can combine all the resource in one business and we do it to see what the result is. What I suggest is an introductory property right of intellectual property right in hand to do it. I think China is facing a huge accusation in the property right by US. If we pour all the resource to concentrating on one project, maybe time rises one year. Within this year, we will finish it.

Lawrence Lau:

I think we continue to write on property right and form a collection of articles. If you can get someone to write historical survey on this issue, say, get somebody to write on European, Hawaii, UK, Jap, for example. Japan's fundamental legal system is not common law. This cross-time, space on this one issues and take some local Chinese examples may lead to coherence. We may write one chapter on this issue, two on land, two on medical care, and two on insurance, and many other topics.

Joseph Stiglitz:

I guess if you could get more people in china to write about that, let me take a discussion to narrow the view of property right. What the reason of property right would be useful to look at a number of different concepts of property right. So I think the land property right may be different from others. So the concept of property right would be in hands that by having several papers looking at different aspects. One of the reasons I like intellectual property right is that it is an extreme case where the standard reasoning does not work and so it helps people understand that property right may actually cause efficiency. Try to get efficiency, you should balance things. The reason I like it is the best example people consider right off. That's a huge cost of property right. In that case, the trade-off becomes more--.

Lawrence Lau:

If I share with you, the marginal cost is 0. So efficiency demands that cost is 0. But I think that we can do is one thing we over-compensate. For example, the cited lesson is essentially marginal cost of 0 in your volume for example. But in principle the

publisher will pay you 2 million yuan, do not care about how much we sell. Because in China, we just give it out. That would achieve the efficiency, and marginal cost goes to 0.

Joseph Stiglitz:

Cooperation governance is a kind of property right issue. What controlled right should managers have and what are rights minority owns. In most cooperate governance, it is in attempt to settle the problem in cooperate governance. You are the minority share. Majority reissue share and the way the minority has the ownership. And restrictions on capital. It becomes perfect. So if you have the minority ownership your view of ownership is 0. Only a little bit. And into that example, majority sells itself to other company that merges to another company. Another company has initial value of 0. The majority owner of the first company exchange with 0 value company. I give out now 50%. All the sudden, the 55% is now 85%. The minority guys will have nothing enough.

Fang Xinghai:

Does it happen in China?

Joseph Stiglitz:

So the question is as you give an example of property right. Cooperate governance is actually property right issue. And you know it seems to me that one of the interesting things is that people realize that even a concept of what is property right in the modern cooperation is very difficult to define. You need a lot of social protection to make the system work. OK. The third question is a huge issue that now to get people with their students to write various papers. My own view on this is rather duplication. I don't mind having different people write on the same subject from different perspectives. Different papers are differently naturally reputed in telling things in different ways.

Xue lan:

The first volume may be the property right or write basic institutions. I want to know it evolves in China. How it departs from the traditional economic thinking and implements in China.

Lawrence Lau:

Some contributed to write chapters on the limited conditions of modern market. Because you thing it is about in your case. Just as I live in the same village, I sell a piece of land. In some sense, we live in the same village and he comes back to me, and says "Larry, I really return it to you" and he can really do it. And that is designing some mechanism in the village that something is wrong land because the buyer actually knows herself. We have a continuous relationship. The modern market is really complicated. That is actually interesting. Because you know I could sell basically I have the property right and property viability.

Joseph Stiglitz:

So you said the reputation model. (Yes) It is the force of disclosure, whole social obligations of sellers. (Right. Exactly. I think that the rule changes because ...) one of the general principles that moves into the modern market economy is substituting the legal enforcement with explicit contracts legally implemented the contracts. We do not worry people to implement the contracts. We can not base on the reputation basis. So we are legal reporters. But it is expensive. (Lau: But this thing happens. Because china is more movable recently, it is different from, say 100 years ago when people did not move. You sell your land and can move away.) The details of legal framework today may be more important in the days we have contracts. You need to have a large framework because implicit contracts would have doubt with a lot of problems. It is a question I do not want to put anyone stop is I want to stop now a little bit. You know, as a number of suggestions, for me at present, it is very difficult to like. I like it looking at an example. We could look at the historical experience in west and in China. How this thing evolved. Some students worked with them.

Justin Yifu Lin:

Along this line, maybe I can contribute to the paper if this arrangement under the responsibility. Although officials in 30 years, yet in effect all you find that as time varies, some may be efficient, some may be not efficient.

Joseph Stiglitz:

I think it is quite interesting. Several papers are on the land because of such subject of controversy and you know including some these mechanisms. I think the interesting topics are to these mechanisms. They mainly concern how government takes over land.

Bai Chong-en:

That happens if you catch that in the countryside.

Joseph Stiglitz:

(A joke about fengshui)

Bai Chong-en:

Justin focuses on the different parts of the country. I think I just public the east of US. I look at the housing sites in the countryside that has evolved a long history. A lot of countries build larger and larger houses, and that site can be traded in the countries. You can legally sell them. (Lau: with the house. The value depends on having the house) you can do much to your house. How land rights evolved in the countries in the past 30 years.

Lawrence Lau:

There is one thing to pick a piece of land. There is also taking a land for development.

That also happens. You can argue whether there is property right.

Joseph Stiglitz:

This is a critical issue. Some one should write about that.

Bai Chong-en:

I can have someone to contribute. If someone really understand how to realize things like in US, how it is exactly done in the large cities like Shanghai. They look at the initial government land---. You really have to know what is really going on. It is so complicated.

Joseph Stiglitz:

That's was very interesting. I can give an example in US. It becomes a major controversy in US too. This is a case recently. They said you could use your rights to raise the value of land by development. And before that, you could only use it for grow. In the right wing are actually economists. (Supporting the government?) No supporting. You can legally do this. I mean a good example, the property right. They thought to define the risk somebody grew, but not the risk of development. There is another one. You know Dangerous Species Art, about 25 years ago. If a dangerous species is discovered on your land, or moves on your land, you can not develop your land. So the famous case is by this law. People who bought it are forced to lose the property right. They were growing trees on this land cannot cut them down. They own the land, and trees, but they cannot cut down the trees. (Bai: is there any compensation?) No, no compensation. (Li: if you cut it you will get a big penalty) that is right. The interesting thing is that in 25 years people now are totally different. Another people say we should provide compensation. They realize that the law was inappropriate. But now the price is taking into account the expected value of land of your property. As you start to provide compensation, it would be unjust compensation because the property right has been defined one way and change roles in another way. And this is a non-efficiency consequence. Your behavior is not changed. It has no incentive effect, there only equity effect.

Bai Chong-en:

Take the land away from farmers to be either development or commercial property, or by government to use to build public facility. How you compensate?

Lawrence Lau:

In principle, the development can buy it.

Joseph Stiglitz:

The real property is in power. The value of the land is not his contribution to collect of actions.

Lawrence Lau:

A case in Hong Kong, Justin would buy a piece of land, you would buy a piece, but the other thing is that the contract everybody has to sell must reach 90% of all the land users. (Oh, Singapore has that law) in case you are a developer, you want to buy a piece of the land; the basic is you paying the ax, to provide everybody. So at the end, they may not be viewed only he left hanging.

Bai Chong-en:

In Singapore if 85% have sold, the last 15% has to sell.

Lawrence Lau:

Yes.

Joseph Stiglitz:

This is always defining protections.

Lawrence Lau:

There would be buildings in China, so this issue would be meaningful.

Justin Yifu Lin:

Maybe in central cities.

Lawrence Lau:

All the owners come into meeting. You need everybody to agree before you can take it done.

Cao Heping:

In yunnan, there are 32 villages called Mosuo. They use a special kind of marriage called Zouhun (Group marriage). They own their land property that means there is a benchmark. Currently, there are 4 to 5 villages which have commercialized. So if you could compare the 4-5 with the rest of villages we may find something interesting and they destroyed the zouhun. We can compare the property rights between the two groups.

Joseph Stiglitz:

you have some students working on it?

Cao heping:

Yes. I would like to do this.

Joseph Stiglitz:

That is quite intersecting.

Cao heping:

The latter group is of thousands of years. That is a traditional design of group

marriage.

Xue lan:

we can work on the property right. Also I think two other things to see how people cry for their rights. This is a real issue, and I am now working on that. You have mentioned the right to social security. I have read several letters from people in Hunan Province. They asked the government to pay them. They were once government employees, and then in the 69 years old, they were assigned to SOEs. So the government moved these people to the SOEs, and they retired at the SOEs, which are very poor, and without pension. They said the government should pay for their insurance because they listened to the government at that time to settle down at the SOEs. They were supposed to retire from government with much better pension and insurance as their colleagues. They said “you are responsible for our future and welfare” they actually organized a huge group repeating at the government agencies.

Li Ling:

I can do this project. I know this. Those people, say, enterprise managers and government officials were treated equally in terms of the pension, the salary and the insurance. But after the reform, the enterprise becomes “企业编制”, and the other one called “事业编制”, even they retire found SOEs their benefits will be half to the government official. So that is why they demonstrate. The interesting story is pervasive, mainly in high level official. A government official whose wife is a rural woman, actually he brought her into the city, and the wife stayed in the government and did the cleaning work. However, when he retired from SOEs, his wife earned 3 times salary as his.

Lawrence Lau:

I think the rule has two sides. I think the government has its responsibility for all the retired people, but it really depends on which is the role get assigned. They really sound much much better off today. You cannot take away these people. So in some sense, you cannot really go back. It turns away for quite a lot.

Joseph Stiglitz:

In general in the west, if you make decision, or your boss make recommend one thing, that is your bad luck. Win some, and lose some. There is very little concern about the equity. There is a special issue I think you have raised. Probably we talked about and the way which is in the process of transition, where government handles a set of obligations before. It would happen to those who were assigned on way. There was not a question of free choice. I think this question is a transition issue. What is the best social welfare? We want to provide to everybody and the other one is a special obligation that rose in the transition process.

Lu Mai:

The situation is more complicated on these cases. I dealt with it in herbin. Relocating

these SOE workers is complicated. They joined some work before 1949. they should get 100% compensation. Different groups get different treatment. Farmers which joined this may cover the social insurance which is not simple. You want to buy them out, but it only use to depend on institutes how much they have to give this compensation. Government owns a lot of assets. So it is quite different of the situations that are now in daqing and liaoning. In daqing, they give 10000\$ to buy a worker out, but in liaoning, 2000\$. (Li: even in Daqing, 10000 \$ does not work, to go to employment quickly) many other obligations for pension, housing, health, insurance, a lot of these obligations. It is not by the law or regulations who should pay for those.

Joseph Stiglitz:

I really think it is interesting. I try to concentrate on that one of the issue in US right now is a very active debate that we called Victoria Tax. If you change the regulation, you change the value of the property right which should be compensated. But the question is that what the nature of the social contract is. When you compensate, you try to write out a framework. I think it is very interesting. Even there is no definite answer; a framework raising issues in a systematical way can attract other societies to take attempt to security. Everybody believes there is a social contract and social security in the west. You can not take it that way. The contract is a formal contract, as they treat it. They are kinks of hard contracts, soft contracts, and no contract. It's expected that the social contract is the formal contract. So many cases like that, particularly, in transition process. Because you are changing, the natural transition is a series of contracts in that way. I think it will help to debate.

Lawrence Lau:

That will create institution equity, because I think it really needs this and something uniform. Not because the nosier, I get more. (Stiglitz: to set principles.) Basically, for the whole problem.

Joseph Stiglitz:

That goes exactly to support what we talked about. Taking the property, they should be those who get more money which is compensation from. If you think about a role that is efficient-----

Lawrence Lau:

Unfortunately, some local governments even disregard it.

Joseph Stiglitz:

they have no incentives. This is the issue of redistribution.

Lawrence Lau:

Mostly the central government becomes the help if you noise.

Xue Lan:

In hubei Province, there are two cities merger together, when the mayor has to be voted, --

Cao heping:

it is a zooming process, and that is important.

Joseph Stiglitz:

Somebody should write about zooming. It is the property right. The other issue that would be interesting is to set the restrictions on property right. It is environmental restrictions. Given the priority of the environment and in-danger species, it is striving property right. If we do not have a tax on contamination, or we do not have a law to regulate activities otherwise irresponsible, somebody can contaminate your land, and then you have to pay for ground water that need to be boiled. It's a very controversial law because it is primarily liability; any owner of the land is liable. It is expensive to set liability. If you buy a piece of land, it is your responsibility to be inspective and they can never tell you what is contaminated. So all they can observe is the contaminated, and you have responsibility to be inspective.

So the point is that your liability, say, if your liability never stops, banks are very upset, because of a sudden thing, the value of mortgage will be negative. The ministry of cost system, and the lawyers eat up about 75% of the insurance fund, and 30% of all the repair cost. So the ministry of cost is huge. But the government's view is that they do not have enough money to clean up. Therefore, they have to find somebody to pay and the fact the system is efficient, and their view is this is the principle. This provides strong incentives to make people behave well. A lot of people do not behave badly. While polluting, in thinking the equity cost, they do care about it. There is a huge space of city would be touched by anybody. Basically, no owner is because of this law. I do not recommend this law you to take. You need some law with that tax in the west. You have faculty member to work on this issue?

Xue Lan:

I will check. Your case is about pollution rights. There are some experiences in China. There are some initial trading in some cities and provinces in china. And what in China is most challenging is the assignment of the initiate pollution rights. They gain, they get the permission to pollute, so they can trade. So it is very challenging, that is also a quite an interesting case.

Lawrence Lau:

We should focus on the inspection. As Joe said, it is difficult to get people to clean up. I want to tell a story. There are many factories in Guangdong. They have to install the equipment to clean up when there are inspective people. But they never turn it on because the operating cost is so high. So this completely complies with the regulation, they never turn it on. It is so costly. It is still contamination. Once it contaminated the

soil, it is almost impossible to clean up. And it is much better in region because you know this fact. They has to contaminate, and do not clean up. They really need to. You need to have thisd expectation in the night to see they will turn on the equipment. The cleaning up action is almost impossible.

Joseph Stiglitz:

This is the institutional issue. It probably has to be from the central government to local government. It is to somebody who has any relationship to the job recently.

Fang Xinghai:

That comes back to the local-central relations we talked about. Some people have intended many years to centralize the agency yo make them under the central government.

Cao heping:

Joe, you said about 20 more intellectual property right exchange centers in China. I think we should focus on this right now, there are located at Shenzhen and Shanghai of two different types.

Joseph Stiglitz:

Some could write about that issue. You invite somebody. Do you have any colleague that writes on property rights or other rights?

Bai Chong-en:

That is a complicated issue. Say, this is an manager, when he first stocked in a SOE. He had a good job plan. Because of all the institutional constraints he could stock his own business. So he has signed some implicit agreement with the government agency that I am going to use your firm to implement my business. But he did not have any form of ownership. And later this firm developed and this requirement of making own property right was explicit. He had the implicit control of the firm. Because he faced the constraint, he could not stock his own business. And later the explicit ownership had to become explicit. Sometime with the government agencies honor this implicit agreement to allow the managers to purchase the firm less than the market price. How do you deal with this? They are the people who did in the firm, but they did not have this good business plan, who happened to be the manager. They did not contribute much to the firm. But later, they use the same approach to buy the manager out. It is different to distinguish these two types. How do you deal with it?

Joseph Stiglitz:

there is another problem of transition. These are two issues. One is the transition one, the other is the other ongoing minority shareholder rights. As I have said in a lot of articles, if you can discriminate them--.

Bai Chong-en:

this has an implication on future efficiency. If you have a lot of constraints, people are still willing to engage in implicit arrangement.

Lawrence Lau:

It's complicated because of the legal facts to own the company. I think the thing to do is to really think the value of the firm with or without the manager. The terminal valuation has to be different.

Joseph Stiglitz:

There are two things. One case, the value is same. One case, the value with or without the guy are different.

Lawrence Lau:

We only focus on the different case. There are two firms. One is managed by Joe, and one is by me. When Joe is the manager, it is 100 \$ a share. When I am the manager, it is 10 \$ a share. I think the most important thing is to really find a third buyer who will come in and say OK, If you have Joe come in, I will pay 100\$ a share, If you have me come Larry come in I will pay only 10 \$ a share. I do not care about the arrangement you make Joe and Larry, they actually like to keep Joe can give another share. So I think it actually possible to think out solutions. Because they had make difference. If they do not make difference, either I or Joe. There is no efficiency value. (Justin: Suppose a case, if Joe is about to retire?) If Joe is about to retire, you should pay a lower value before Joe.

Bai Chong-en:

There is an illustration about that. That may be a fact that future implicates.

Joseph Stiglitz:

The question we can say is going-forward. How we define contract arrangements between firms and individuals. That is a going-forward we can talk about desirable contracts. In the past we did get that clarity.

Bai Chong-en:

There are still areas which are very difficult to make it deep. You still need to make it implicit contracts.

Joseph Stiglitz:

Still you can do a lot more. You can evaluate the assets today and without reserve value. Like you do the hedge fund, 20% of capital gain at the time of your departure goes to you.

Lawrence Lau:

I think today, it's different with the situation in 1980s, because there was no capital market. Actually, if I am the manager that I want to buy out, there will be 100 funds I

can go to today. I want to do management to buy out. If I am good enough, someone will come back to me. I mean today, this going is exactly a manager buy out. Xugong is a management to buy out. Today there is actual capital which you can raise. Today I think there is no reason I can go forward with very high () because people have become more sophisticated and in some sense much more bidding. You really cannot do it. Ok you have to sell it to me in the market because I contributed to it.

Joseph Stiglitz:

This issue is very interesting. It probably is different in west provinces and east provinces. Thousands of Chinese pension fund were willing to go. We welcome colleagues to write on other sets of property rights like minority shareholders, bond holders, etc.

Bai Chong-en:

I think this issue is somewhat related to the American issue.

Joseph Stiglitz:

it is the majority shareholders who were derived to the property rights. The majority shareholders have the voting power. This will be very useful if you have other ideas and other colleagues. I try to write a global framework paper that will provide a set of things in the abstract level. And try to highlight some issues and elaborate them. We write a framework at the same time. We try to look for who writes this discussion. So if American or European people would like to write on a pill of issue, we can contact to you, and they can write together. Is that a way of having this? You can make it to this July, at Manchester.

Bai Chong-en:

Another issue is the property taxation. The government is thinking about property tax. This may relate to the land rights.

Joseph Stiglitz:

That is a fundamental issue. Let me take why it is the fundamental issue. In a lot of the bilateral role, there is recognition that the position of property tax is the definition of property right. Because obviously, if I can tax on property, you can 100% take away, but I take 50%. So the fact they go to property right to recognition that taxation is the definition of property rights. But no government by themselves agrees with that tie the rights to the tax to give up government.

Lawrence Lau:

You have said there were many troubles in China in land sell. This is really because the local government has no resource of revenue. So they discovered last year, “if I sell this land, I will get revenue”. That is now really going on. But if you want to tax, they do not have to do this short-term thing. Property tax is doing the right way to go.

Joseph Stiglitz:

Land tax is the best tax?

Lawrence Lau:

no efficiency lost.

Joseph Stiglitz:

OK. If you have any question. Mo is a good at answering emails. She will pass it to me.